

Q3

THE LISNEY RENTAL INDICES



The Difference



Economic Environment

The latest national account figures from the CSO for Q2 2017 were broadly positive. GDP grew by 1.4% in the quarter and 5.8% in the year. Stripping out the multi-national sector, GNP was down 4.6% in the quarter and 1.4% in the year. On the expenditure side, consumption increased by 1.7% annually while capital investment declined by 8.8%. Exports were up 3.2% in the 12 month period, while imports were down 3.6%.

Employment levels remain very positive. In the year to Q2, Irish employment increased by 2.4%, (+48,100 people) according to the Quarterly National Household Survey. As a result, there were a total of 2.063m people in employment at the end of June. The number of persons unemployed decreased by 46,300 (-24.7%) in the year; pushing the total number out of work down to 141,500. The seasonally adjusted unemployment rate fell from 6.8% to 6.2% in the quarter.

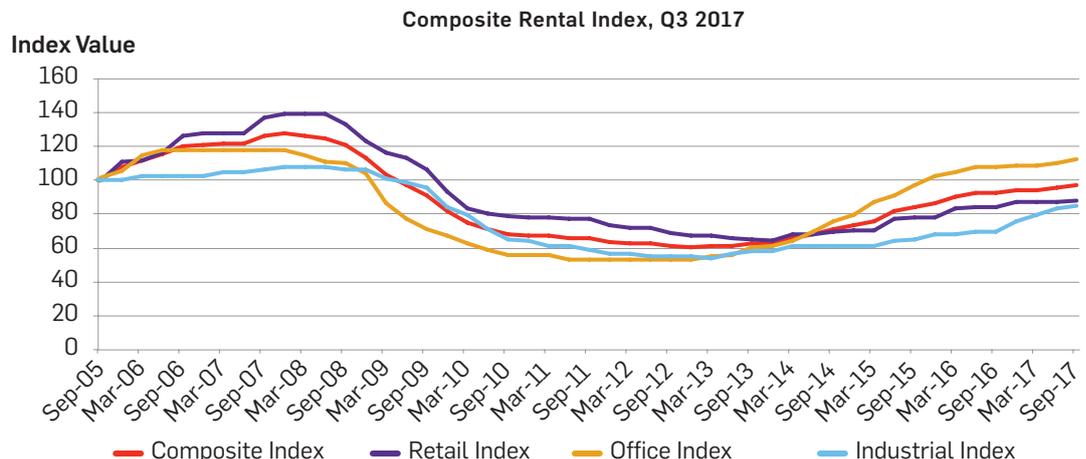
Budget 2018 brought with it spending increases and tax cuts. The main tax change was a half percentage point cut in the 2.5% USC rate, a quarter point reduction in the 5% rate and a rise of €750 pa in the point of entry to the top 40% income-tax rate. A total of €1.83bn has been allocated to housing and development in Budget 2018 through the Housing Assistance Payment (HAP) Scheme, homeless services, ISIF and LIHAF. In addition, and most importantly for the commercial property market, the level of stamp duty on commercial property transactions will rise from 2% to 6%. Mortgage interest relief will be cut; continuing at just 75% of the rate in 2018, 50% in 2019 and 25% in 2020. In order to assist SME's with the challenges of Brexit, a €300m loan scheme will be made available to SMEs to assist them with their short-term working capital needs.



Overall Market

Both the office and industrial sectors drove growth in the overall market index in Q3. Supply levels across the three sectors are low and are causing upward movements in rental levels.

The Lisney composite index of commercial rents increased by 1.9% in Q3 and grew by 5.0% on an annual basis. From the cycle trough in December 2012, this index has increased by 60.7% but remains 23.8% behind previous cycle peak levels.



Source: Lisney



The Rental Indices have been researched and compiled by Lisney Research. The establishment of the indices was carried out in conjunction with the School of Real Estate and Construction Economics at the Dublin Institute of Technology. The school is a recognised centre of excellence and the premier provider of education in real estate and construction economics in the Republic of Ireland.



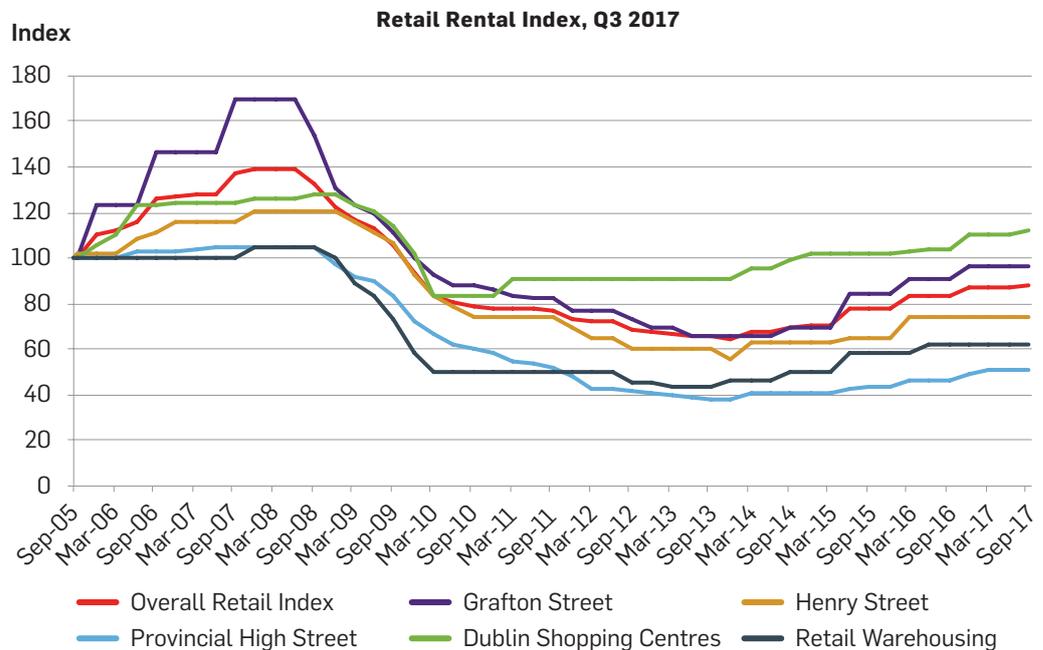
Retail Sector

Q3 2017 remained busy without a notable change in activity levels. Although the number of unoccupied units did not change much during the period, there was a turnover of tenancies mainly with existing retailers who were expanding operations. The main indicators are generally pointing in a positive direction, notably a recovery in sentiment in September (at its strongest level in 18 months) and notable retail sales (the volume increasing 6.7% annually).

The Lisney overall index of retail rents rose marginally by 0.6% in Q3. In annual terms, there was a 4.9% increase recorded. The index was still 36.7% below its 2007 peak level, however had increased 36.4% since 2013.

In terms of the prime retail streets in Dublin city centre, Grafton Street and Henry Street were unchanged in the quarter. On an annual basis the Grafton Street index grew by 5.8%, while the Henry Street index grew slightly, by 0.4%. These indices have grown by 39.2% and 33.9% respectively since the end of 2012 but remained 43.1% and 38.2% off the previous cycle high at the end of September.

In relation to the suburbs, the index of rents in prime Dublin shopping centres grew by 1.9% in the quarter and 7.5% in the year, while the retail warehouse index remained unchanged. Outside of Dublin, the index of rents on provincial high streets grew by 10.3% annually however remained 51% below its highest point in 2007.



Source: Lisney



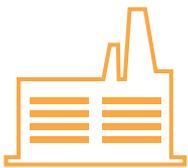
Office Sector

Activity in the Dublin office market in Q3 was significantly down on Q2 figures; however it represented a very healthy level of activity with over 49,000 sqm transacting. The majority of deals were acquired by domestic occupiers while the IT sector took the most space. The city centre was the most active region, accounting for over two-thirds of the volume of space transacted. Supply levels decreased further with the vacancy rate dropping to 9.2%.

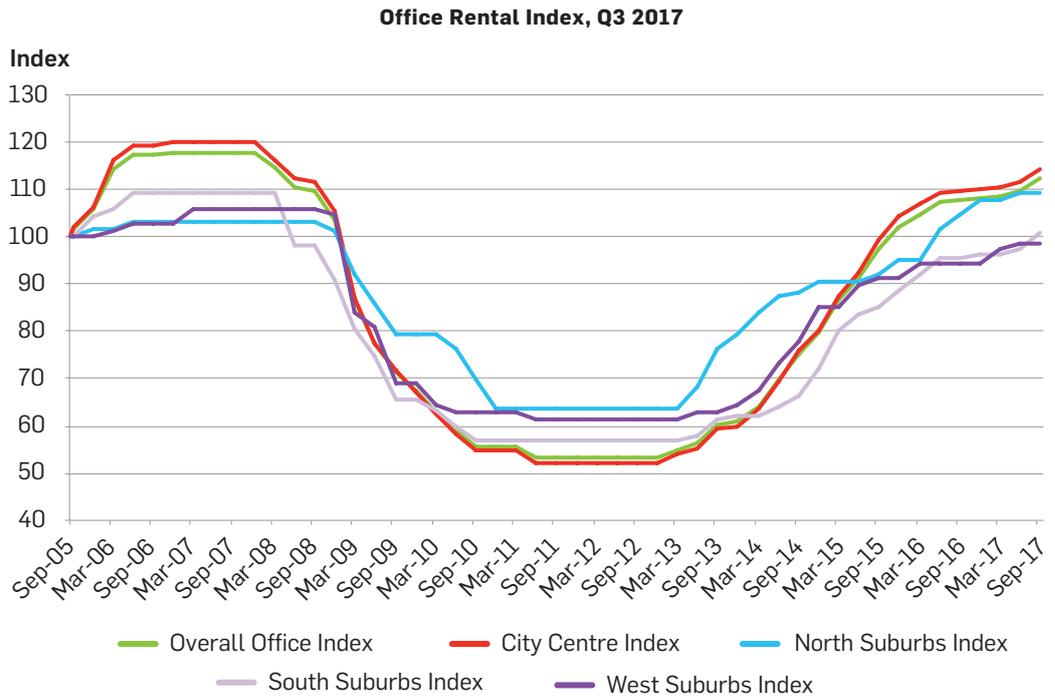
The Lisney index of overall Dublin office rents grew by 2.2% in the three months to the end of September. Meanwhile, annual growth of 4.2% was recorded. At the end of Q3, the index was just 4.7% off its previous cycle peak (2007),

having increased almost 111% since early 2013.

Focusing on the various sub-indices, the city centre index increased by 2.3% in Q3 and on an annual basis it was 3.9% higher. In the suburbs, the south region was the only region to see growth, rising by 3.3% in the quarter. All of the suburban areas increased on an annual basis - the north by 4.5%, the west by 4.8% and the south by 5.6%.



Industrial Sector



Source: Lisney

Activity levels reached 49,200 sqm in Q3, a decrease of 29% on the previous quarter. The majority of transactions in Q3 were lettings rather than sales; 60% of the total. Overall supply levels in Dublin increased by 1.5% in Q3, while the vacancy rate rose slightly to 11.5%.

The Lisney industrial index rose by 2.5% in Q3 with year-on-year growth of 22.7% recorded. At the end of September 2017, the Dublin industrial index had

increased by 57.9% since the cycle low in 2013 and was 21.1% behind its previous cycle peak.

A breakdown of regions reveals that all locations recorded quarterly increases; southwest (1.7%), northwest (1.9%), north (3.6%) and south (4.8%). Focusing on annual activity, the south region increased by a significant 32.5%. This was followed by the southwest (24.8%), the northwest (22.2%) and the north (15.9%).



Source: Lisney

Sectoral and Sub-Sectoral Base June 2005 =100

| Date | Composite Index | Overall Retail Index | Grafton Street | Henry Street | Provincial High Street | Dublin Shopping Centres | Retail Warehouse |
|-------------------|-----------------|----------------------|----------------|--------------|------------------------|-------------------------|------------------|
| Jun 13 | 60.89 | 65.50 | 65.38 | 60.19 | 39.04 | 91.15 | 43.33 |
| Sep 13 | 62.64 | 65.39 | 65.38 | 60.19 | 37.97 | 91.15 | 43.33 |
| Dec 13 | 62.40 | 64.40 | 65.38 | 55.56 | 37.97 | 91.15 | 46.67 |
| Mar 14 | 65.62 | 67.77 | 66.15 | 62.96 | 40.64 | 95.83 | 46.67 |
| June 14 | 67.85 | 67.77 | 66.15 | 62.96 | 40.64 | 95.83 | 46.67 |
| Sept 14 | 71.12 | 69.79 | 69.23 | 62.96 | 40.64 | 98.96 | 50.00 |
| Dec 14 | 73.21 | 70.41 | 69.23 | 62.96 | 40.64 | 102.08 | 50.00 |
| Mar 15 | 76.04 | 70.41 | 69.23 | 62.96 | 40.64 | 102.08 | 50.00 |
| June 15 | 81.75 | 77.61 | 84.62 | 64.81 | 42.25 | 102.08 | 58.33 |
| Sept 15 | 84.33 | 77.71 | 84.62 | 64.81 | 43.32 | 102.08 | 58.33 |
| Dec 15 | 86.49 | 77.71 | 84.62 | 64.81 | 43.32 | 102.08 | 58.33 |
| Mar 16 | 90.18 | 83.01 | 91.08 | 74.07 | 45.99 | 102.71 | 58.33 |
| Jun 16 | 92.17 | 83.81 | 91.08 | 74.07 | 46.52 | 104.17 | 61.67 |
| Sep 16 | 92.48 | 83.81 | 91.08 | 74.07 | 46.52 | 104.17 | 61.67 |
| Dec 16 | 93.85 | 87.23 | 96.36 | 74.36 | 48.66 | 109.90 | 61.67 |
| Mar 17 | 94.26 | 87.36 | 96.36 | 74.36 | 51.34 | 109.90 | 61.67 |
| Jun 17 | 95.26 | 87.36 | 96.36 | 74.36 | 51.34 | 109.90 | 61.67 |
| Sep 17 | 97.06 | 87.87 | 96.36 | 74.36 | 51.34 | 111.98 | 61.67 |
| 3 Month Change % | 1.90 | 0.59 | 0.00 | 0.00 | 0.00 | 1.90 | 0.00 |
| 6 Month Change % | 2.97 | 0.59 | 0.00 | 0.00 | 0.00 | 1.90 | 0.00 |
| 9 Month Change % | 3.43 | 0.74 | 0.00 | 0.00 | 5.49 | 1.90 | 0.00 |
| 12 Month Change % | 4.96 | 4.85 | 5.80 | 0.39 | 10.34 | 7.50 | 0.00 |

| Date | Overall Office Index | City Centre | North Suburbs | South Suburbs | West Suburbs | Overall Industrial Index |
|-------------------|----------------------|---------------|---------------|---------------|--------------|--------------------------|
| Jun 13 | 56.23 | 55.29 | 68.25 | 58.00 | 62.87 | 56.52 |
| Sep 13 | 60.31 | 59.48 | 76.19 | 61.24 | 62.87 | 58.26 |
| Dec 13 | 60.92 | 59.95 | 79.37 | 61.96 | 64.37 | 58.26 |
| Mar 14 | 64.12 | 63.49 | 84.12 | 61.96 | 67.36 | 60.87 |
| June 14 | 69.70 | 69.58 | 87.30 | 64.12 | 73.35 | 60.87 |
| Sept 14 | 75.36 | 75.91 | 88.09 | 66.28 | 77.84 | 60.87 |
| Dec 14 | 79.78 | 80.12 | 90.47 | 72.05 | 85.32 | 60.87 |
| Mar 15 | 86.87 | 87.62 | 90.47 | 80.22 | 85.32 | 60.87 |
| June 15 | 91.29 | 92.31 | 90.47 | 83.83 | 89.82 | 64.35 |
| Sept 15 | 97.38 | 99.34 | 92.06 | 85.37 | 91.32 | 65.22 |
| Dec 15 | 102.12 | 104.49 | 95.24 | 88.61 | 91.32 | 67.83 |
| Mar 16 | 104.74 | 107.07 | 95.24 | 92.22 | 94.31 | 67.83 |
| Jun 16 | 107.41 | 109.53 | 101.59 | 95.41 | 94.31 | 69.39 |
| Sep 16 | 107.89 | 109.95 | 104.76 | 95.41 | 94.31 | 69.39 |
| Dec 16 | 108.31 | 110.08 | 107.93 | 96.49 | 94.31 | 75.95 |
| Mar 17 | 108.67 | 110.36 | 107.93 | 96.49 | 97.30 | 79.21 |
| Jun 17 | 109.93 | 111.60 | 109.52 | 97.56 | 98.80 | 83.04 |
| Sep 17 | 112.39 | 114.20 | 109.52 | 100.77 | 98.80 | 85.13 |
| 3 Month Change % | 2.23 | 2.23 | 0.00 | 3.30 | 0.00 | 2.52 |
| 6 Month Change % | 3.42 | 3.48 | 1.47 | 4.44 | 1.54 | 7.47 |
| 9 Month Change % | 3.76 | 3.79 | 1.47 | 4.44 | 4.76 | 12.08 |
| 12 Month Change % | 4.17 | 3.87 | 4.55 | 5.62 | 4.76 | 22.68 |

Lisney Rental Index - Historical (June 05 = 100)

| Date | Retail | Office | Industrial | Overall |
|----------|--------|--------|------------|---------|
| Dec 2004 | 96.29 | 96.81 | 98.52 | 97.29 |
| Dec 2005 | 110.74 | 105.80 | 100.00 | 107.69 |
| Dec 2006 | 127.46 | 117.79 | 102.61 | 121.10 |
| Dec 2007 | 138.72 | 117.89 | 107.83 | 127.30 |
| Dec 2008 | 122.76 | 103.76 | 106.09 | 113.49 |
| Dec 2009 | 93.60 | 67.31 | 84.35 | 82.16 |
| Dec 2010 | 78.03 | 55.57 | 64.35 | 67.68 |
| Dec 2011 | 73.67 | 53.19 | 56.52 | 63.76 |
| Dec 2012 | 67.28 | 53.19 | 54.78 | 60.39 |
| Dec 2013 | 64.40 | 60.92 | 58.26 | 62.40 |
| Dec 2014 | 70.41 | 79.78 | 60.87 | 73.21 |
| Dec 2015 | 77.71 | 102.12 | 67.83 | 86.49 |
| Dec 2016 | 87.23 | 108.31 | 75.95 | 93.85 |
| Mar 2017 | 87.36 | 108.67 | 79.21 | 94.26 |
| Jun 2017 | 87.36 | 109.93 | 83.04 | 95.26 |
| Sep 2017 | 87.87 | 112.39 | 85.13 | 97.06 |

Please note: Lisney first produced commercial rental indices in 1970. This index series was discontinued following the release of the Q2 2004 publication. A new index series based on a different set of data commenced in Q2 2005, i.e. the current index series. As an indicative exercise to provide some continuity between the old and the new indices, they have been chain linked and the results are set out in the table above.

Disclaimer: The Lisney Commercial Rental Indices are derived and published solely for information purposes as a means of tracking the commercial property rental market. They are not derived for the purpose of valuation and should not be used as such. Lisney bears no liability for any losses, damages, costs or expenses suffered by any person as a result of any reliance on this information.

The Lisney Research Team



Aoife Brennan
Director of Research



Tanya Duffy
Property Analyst



David Walls
Property Analyst



Barry Blake
Property Analyst

Our Offices

DUBLIN

St. Stephen's Green House,
Earlsfort Terrace, Dublin 2
D02 PH42
T: +353 1 638 2700
E: dublin@lisney.com
PSRA No. 001848.

CORK

1 South Mall,
Cork
T12 CCN3
T: +353 21 427 5079
E: cork@lisney.com

BELFAST

Montgomery House, 29-33
Montgomery Street, Belfast,
BT1 4NX
T: +44-2890-501501
E: belfast@lisney.com

LONDON

33 Cavendish Square,
Marylebone, London
United Kingdom, W1G 0PW
T: +44-203-714-9055
E: london@lisney.com



Facebook Lisney

Twitter @LisneyIreland

LinkedIn Lisney Ireland